

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Midland County Road Commission	County Midland
Audit Date December 31, 2004	Opinion Date April 1, 2005	Date Accountant Report Submitted to State: April 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

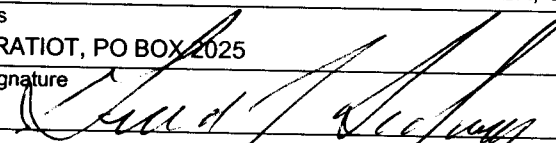
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		Zip 48605	

MIDLAND COUNTY ROAD COMMISSION
(A Component Unit of Midland County)

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

April 13, 2005

Members of the Board of County
Road Commissioners
County of Midland, Michigan
Sanford, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **Midland County Road Commission**, a component unit of Midland County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Midland County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Midland County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2005, on our consideration of **Midland County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Midland County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Rehmann Lohman

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Midland County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. The annual report consists of a series of financial statements. The Statements of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and an additional section that presents the operating fund broken down between primary, local and county road funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities-this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Note that Midland County government-wide financial statements are not herein presented because the Road Commission is a component unit of the county. The county presents their financial statements elsewhere and in a manner partially resembling private-sector business in its government-wide financial statements in compliance with GASB Statement No. 34.

Government-wide Statements

The statement of net assets presents information on all of the Road Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the Road Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The component unit financial statements are principally supported by state shared revenues (operating grants). The governmental activities of the Road Commission include providing construction, repair, maintenance, and snow removal of roads within Midland County.

The government-wide financial statements include only the Road Commission itself (known as the *Primary government*). The Road Commission has no legally separate component units for which the Road Commission is financial accountable. In this report, financial information for the Road Commission is reported separately from the financial information presented for Midland County which reports the Road Commission as a component unit.

The government-wide financial statements can be found on pages 10 and 12 of this report.

Fund financial statements. A *fund* is grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Road Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Road Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Road Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Road Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Road Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund can be found on pages 14 through 15 of this report.

The Road Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Road Commission's financial statements. The notes to the financial statements can be found on pages 16 through 24 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Government-wide Financial Analysis

The Road Commission's net assets increased approximately 21% or \$3,548,133, from \$16,619,345 to \$20,167,478 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Midland County Road Commission Net Assets:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>%</u>
Current and other assets	\$ 4,215,906	\$ 4,397,819	\$ (181,913)	-4.14%
Capital assets	<u>17,693,158</u>	<u>13,803,634</u>	<u>3,889,524</u>	28.18%
Total assets	<u>21,909,064</u>	<u>18,201,453</u>	<u>3,707,611</u>	20.37%
Long-term liabilities outstanding	428,959	417,720	11,239	2.69%
Other liabilities	<u>1,312,627</u>	<u>1,164,388</u>	<u>148,239</u>	12.73%
Total liabilities	<u>1,741,586</u>	<u>1,582,108</u>	<u>159,478</u>	10.08%
Net assets:				
Invested in capital assets, net of related debt	17,693,158	13,803,635	3,889,523	28.18%
Unrestricted	<u>2,474,320</u>	<u>2,815,710</u>	<u>(341,390)</u>	-12.12%
Total net assets	<u>\$ 20,167,478</u>	<u>\$ 16,619,345</u>	<u>\$ 3,548,133</u>	21.35%

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Midland County Road Commission, assets exceeded liabilities by \$20,167,478 at the close of the most recent fiscal year.

By far the largest portion of the Midland County Road Commission's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. Although the Midland County Road Commission's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Governmental Activities

A summary of changes in net assets for the years ended December 31, 2004 and 2003 follows:

	<u>December 31</u> <u>2004</u>	<u>December 31</u> <u>2003</u>
Program revenue		
Charges for services	\$ 1,620,936	\$ 1,789,243
Operating grants and contributions		
State transportation funds	5,895,508	5,416,978
Capital grants and contributions		
Federal and state sources	904,889	796,192
General revenue		
Taxes	1,005,718	937,492
Interest and rents	25,367	13,109
Grants not restricted to program	2,966	8,684
Gain on equipment disposal	<u>136,791</u>	<u>80,983</u>
Total revenue	9,592,175	9,042,681
Expenses		
Public Works	<u>6,168,655</u>	<u>5,174,789</u>
Increase (decrease) in net assets	<u>\$ 3,423,520</u>	<u>\$ 3,867,892</u>

Governmental activities increased the Midland County Road Commission's net assets by \$3,423,520. The key elements of this increase are as follows:

- There was a 17% increase in public works expenses from the prior year which was due to an increase in availability of federal and state revenues.

A summary of changes on the Operating fund is as follows:

	<u>For the year ended December 31, 2004</u>				<u>Actual for the Year Ended December 31, 2003</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	
Revenues					
Taxes	\$ 975,000	\$ 1,035,000	\$ 1,005,718	\$ (29,282)	\$ 937,492
Permits and licenses	20,000	20,000	14,475	(5,525)	16,675
Federal sources	860,000	717,000	696,959	(20,041)	373,057
State sources	6,053,200	6,120,700	6,103,438	(17,262)	5,840,113
Contributions	848,845	1,123,845	1,023,042	(100,803)	1,121,797
Charges for services	504,000	622,060	583,419	(38,641)	650,771
Interest and rentals	15,000	25,500	25,367	(133)	13,109
Other revenue	50,008	69,015	139,757	70,742	89,667
Total revenue	<u>9,326,053</u>	<u>9,733,120</u>	<u>9,592,175</u>	<u>(140,945)</u>	<u>9,042,681</u>
Expenditures					
Primary road construction	-	260,000	259,349	651	303,281
Primary road maintenance	4,550,000	5,140,000	5,123,134	16,866	3,808,356
Local road maintenance	4,177,650	3,587,650	3,584,478	3,172	3,584,470
State trunkline maintenance	500,000	500,000	491,034	8,966	535,813
State trunkline non-maintenance	-	121,000	120,734	266	149,152
Equipment expense (net)	(290,000)	(411,000)	(478,932)	67,932	(393,230)
Administrative expense (net)	460,000	421,000	406,183	14,817	379,307
Capital outlay (net)	235,000	140,000	117,894	22,106	44,689
Debt principal payments	-	-	-	-	220,000
Other	20,000	255,000	298,452	(43,452)	55,962
Total expenditures	<u>9,652,650</u>	<u>10,013,650</u>	<u>9,922,326</u>	<u>91,324</u>	<u>8,687,800</u>
Net change in fund balance	(326,957)	(280,530)	(330,151)	(49,621)	354,881
Fund balances, beginning of year	<u>3,233,430</u>	<u>3,233,430</u>	<u>3,233,430</u>	<u>-</u>	<u>2,878,549</u>
Fund balances, end of year	<u>\$ 2,906,833</u>	<u>\$ 2,952,900</u>	<u>\$ 2,903,279</u>	<u>\$ (49,621)</u>	<u>\$ 3,233,430</u>

General Fund Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the Board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$407,067 higher than the original budget primarily due to the neighboring counties and township contributions. There was an increase in the Michigan Transportation Funds due to new trailer registration fees. The actual revenue recognized during 2004 was less than the final amended budget by \$140,945.

The final amended expenditure budget for 2004 was \$361,000 greater than the original budget, mainly due to increases in primary road construction and maintenance and other expenditures as a result of an increase in county and township contributions. The actual expenditures recognized during 2004 were less than the final amended budget by \$91,324. There was an unfavorable variance in the other expenditure line items.

Capital Assets and Debt Administration

As of December 31, 2004, the Midland County Road Commission had invested \$17,693,158 in capital assets. This amount represents a net increase (including additions and deductions) of \$3,889,524 for 28% as follows:

	<u>2004</u>	<u>2003</u>	<u>Total Percentage Change 2003/2004</u>
Capital assets not being depreciated			
Land and improvements	\$ 3,619,170	\$ 3,619,170	0.00%
Land / right-of-way	<u>8,700</u>	<u>8,700</u>	0.00%
Subtotal	<u>3,627,870</u>	<u>3,627,870</u>	0.00%
Capital assets being depreciated			
Buildings	2,718,925	2,718,925	0.00%
Equipment	5,017,873	4,706,867	6.61%
Infrastructure	<u>11,412,645</u>	<u>7,167,741</u>	59.22%
Subtotal	<u>19,149,443</u>	<u>14,593,533</u>	31.22%
Total capital assets	22,777,313	18,221,403	25.00%
Total accumulated depreciation	<u>(5,084,155)</u>	<u>(4,417,769)</u>	<u>15.08%</u>
Total net capital assets	<u>\$ 17,693,158</u>	<u>\$ 13,803,634</u>	28.18%

Major capital asset events during the current fiscal year included the following:

Reconstruction of bridges	\$ 52,583
Various resurfacing of roads	4,192,321
Equipment	<u>800,754</u>
Total Additions	<u>\$ 5,045,658</u>

The Midland County Road Commission disposed equipment during 2004 with a purchase price of \$489,748, related depreciation of \$416,525 and a net book value of \$73,223.

Additional information on the Road Commission's capital assets can be found in note III.B. on page 21.

Long-term debt

At the year end, the Midland County Road Commission had no notes, bonds or installment purchase agreements.

Other obligations include accrued vacation and sick pay leave. More detailed information about the Road Commission's long-term liabilities is presented in Note III. C. to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Road Commission's budget for the 2005 fiscal year:

- According to the Michigan Department of Transportation estimates, the increase in the transportation fund will be in the 9% area due to the increase of the trailer registration fees and change in share of urban distribution.
- An increase of 2% for Federal and State grants is available for Primary and Local construction and maintenance.

Requests for Information

This financial report is designed to provide a general overview of the Road Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Midland County Road Commission, 2334 N. Meridian Rd., Sanford, Michigan 48657.

BASIC FINANCIAL STATEMENTS

MIDLAND COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET
DECEMBER 31, 2004

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and interest bearing deposits	\$ 1,387,076	\$ -	\$ 1,387,076
Accounts receivable			
State trunkline maintenance	65,466	-	65,466
Due on county road agreements	176,214	-	176,214
Motor vehicle highway funds	937,592	-	937,592
Property taxes	1,028,000	-	1,028,000
Due from other governments	137,206	-	137,206
Inventories			
Equipment material and parts	128,872	-	128,872
Road materials	351,983	-	351,983
Deferred expense	3,497	-	3,497
Capital assets			
Land and improvements / rights-of-way	-	3,627,870	3,627,870
Property and equipment - net of accumulated depreciation	-	3,524,393	3,524,393
Infrastructure - net of accumulated depreciation	-	10,540,894	10,540,894
Total assets	<u>\$ 4,215,906</u>	<u>17,693,157</u>	<u>21,909,063</u>
LIABILITIES			
Accounts payable	\$ 56,027	-	56,027
Accrued liabilities	37,130	-	37,130
Compensated absences payable	21,603	-	21,603
Advances			
State trunkline equipment purchase	92,731	-	92,731
State trunkline maintenance	40,136	-	40,136
Other	37,000	-	37,000
Deferred revenue	1,028,000	-	1,028,000
Long-term liabilities			
Due within one year	-	178,118	178,118
Due after one year	-	250,841	250,841
Total liabilities	<u>1,312,627</u>	<u>428,959</u>	<u>1,741,586</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventory	480,855	(480,855)	-
Unreserved, undesignated	2,422,424	(2,422,424)	-
Total fund balance	<u>2,903,279</u>	<u>(2,903,279)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 4,215,906</u>		
Net Assets:			
Invested in capital assets		17,693,157	17,693,157
Unrestricted		2,474,320	2,474,320
Total net assets		<u>\$ 20,167,477</u>	<u>\$ 20,167,477</u>

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION
Reconciliation of General Fund Balance Sheet
to Statement of Net Assets

DECEMBER 31, 2004

Fund balances - General Fund \$ 2,903,279

Amounts reported for *governmental activities* in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add - land and improvements / right-of-way	3,627,870
Add - property and equipment	7,736,798
Add - infrastructure	11,412,644
Deduct - accumulated depreciation	(5,084,155)

Long-term accrued compensated absences are not due and payable in the
current period and therefore are not reported in the funds. (428,959)

Net assets of governmental activities \$ 20,167,477

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	General Fund	Adjustments	Statement of Activities
Expenditures/expenses			
Public works	\$ 4,876,668	\$ 1,167,374	\$ 6,044,042
Capital outlay	5,045,658	(5,045,658)	-
Total expenditures/expenses	<u>9,922,326</u>	<u>(3,878,284)</u>	<u>6,044,042</u>
Program revenue			
Charges for services	1,620,936	-	1,620,936
Operating grants and contributions			
State transportation funds	5,895,508	-	5,895,508
Capital grants and contributions			
Federal and state sources	<u>904,889</u>	<u>-</u>	<u>904,889</u>
Total program revenues	<u>8,421,333</u>	<u>-</u>	<u>8,421,333</u>
Net program revenue			<u>2,377,291</u>
General revenue			
Taxes	1,005,718	-	1,005,718
Interest and rents	25,367	-	25,367
Contributions not restricted to programs	2,966	-	2,966
Gain on sale of assets	<u>136,791</u>	<u>-</u>	<u>136,791</u>
Total general revenue	<u>1,170,842</u>	<u>-</u>	<u>1,170,842</u>
Total revenue	<u>9,592,175</u>		
Revenue over (under) expenditures	(330,151)	330,151	-
Changes in net assets	-	3,548,133	3,548,133
Fund balance/net assets:			
Beginning of the year, as restated	<u>3,233,430</u>	<u>13,385,914</u>	<u>16,619,344</u>
End of the year	<u>\$ 2,903,279</u>	<u>\$ 17,264,198</u>	<u>\$ 20,167,477</u>

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION
Reconciliation of the General Fund Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Revenues (under) expenditures - General Fund	\$ (330,151)
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Amounts reported for *governmental activities* in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	800,753
Add - Infrastructure purchases	4,244,904
Deduct - depreciation expense	(1,082,911)

Disposal of capital assets before they are fully depreciated results in the recording of an
expense in the statement of activities, but does not require the use of current financial
resources and therefore is not reported as an expenditure in the General Fund.

(73,223)

The change in the accrued compensated absences is reported as an expense in the
statement of activities but does not require the use of current financial resources
and therefore is not reported as an expenditure in the General Fund.

(11,239)

Change in net assets of governmental activities	<u>\$ 3,548,133</u>
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The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Taxes				
County millage	\$ 975,000	\$ 1,035,000	\$ 1,005,718	\$ (29,282)
Permits and licences	20,000	20,000	14,475	(5,525)
Federal sources				
Surface transportation program (STP)	440,000	447,000	391,497	(55,503)
D funds	220,000	255,000	247,682	(7,318)
Bridge	-	15,000	13,189	(1,811)
Safety	200,000	-	-	-
High priority	-	-	44,591	44,591
State sources				
Michigan Transportation funds				
Engineering	10,000	10,000	10,000	-
Urban	-	-	373,094	373,094
Allocation	5,830,000	5,894,500	5,509,941	(384,559)
State critical bridge	-	3,000	2,473	(527)
Economic development funds				
Rural primary (D)	165,000	165,000	159,795	(5,205)
Forest Road (E)	48,200	48,200	48,135	(65)
Contributions				
City and Villages	60,000	165,000	128,869	(36,131)
Townships	788,845	958,845	861,460	(97,385)
Other	-	-	32,713	32,713
Charges for services				
State trunkline maintenance	500,000	480,000	445,405	(34,595)
State trunkline non-maintenance	-	131,000	121,358	(9,642)
Salvage sales	-	-	6,371	6,371
Other	4,000	11,060	10,285	(775)
Interest and rentals	15,000	25,500	25,367	(133)
Other revenue				
Proceeds on equipment disposals	50,000	65,000	136,791	71,791
Private contributions	8	4,015	2,966	(1,049)
Total revenue	<u>9,326,053</u>	<u>9,733,120</u>	<u>9,592,175</u>	<u>(140,945)</u>

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures				
Primary Road				
Construction	\$ -	\$ 260,000	\$ 259,349	\$ 651
Heavy maintenance	2,700,000	2,850,000	2,839,753	10,247
Maintenance	1,850,000	2,290,000	2,283,381	6,619
Local Road				
Heavy maintenance	1,927,650	1,147,650	1,145,801	1,849
Maintenance	2,250,000	2,440,000	2,438,677	1,323
Total maintenance	8,727,650	8,987,650	8,966,961	20,689
State trunkline maintenance	500,000	500,000	491,034	8,966
State trunkline non-maintenance	-	121,000	120,734	266
Equipment expense (net)	(290,000)	(411,000)	(478,932)	67,932
Administrative expense (net)	460,000	421,000	406,183	14,817
Capital outlay (net)	235,000	140,000	117,894	22,106
Other				
Cities and Villages	20,000	255,000	298,452	(43,452)
Total expenditures	9,652,650	10,013,650	9,922,326	91,324
Net change in fund balance	(326,597)	(280,530)	(330,151)	(49,621)
Fund balances, beginning of year	3,233,430	3,233,430	3,233,430	-
Fund balances, end of year	<u>\$ 2,906,833</u>	<u>\$ 2,952,900</u>	<u>\$ 2,903,279</u>	<u>\$ (49,621)</u>

The accompanying notes are an integral part of these financial statements.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Midland County Road Commission (the "Road Commission") conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

A. Reporting Entity

The *Midland County Road Commission*, referred to as the Road Commission, is a discrete component unit of the County of Midland, Michigan. The Road Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, reimbursements from the Department of State Highways for work done by the County on State trunklines, Federal Transportation funds, and contributions from other local units of government for work performed by the Road Commission.

The Road Commission is considered to be a component unit of the County because it is an entity for which the County is considered to be financially accountable.

The Road Commission, as a component unit of the County, is required by Public Act 51 of the State of Michigan, to have a separate audit performed of its operations. These audited financial statements have been prepared to meet this State requirement.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by taxes, charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

A combined financial statement is provided for the general fund balance sheet and the statement of net assets and the general fund statement of revenues, expenditures and changes in fund balance and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial *statements* (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) *financial statements* (general fund balance sheet and general fund statement of revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and federal revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major *governmental fund*:

The *general fund* is the government's primary *operating fund*. It accounts for all financial resources of the general government.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits

Cash and cash equivalents consist of cash on hand, deposits in demand and time deposit accounts, money market deposits, and certificates of deposits with original maturities of less than 90 days.

2. Inventory

Inventory, consisting of various operating parts, supplies and road material, is stated at the lower of cost or market, using the FIFO (first-in, first-out) method.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements. Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Fund.

Depreciation is recorded over the estimated useful lives (ranging from five to fifty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

Buildings	30 to 50 years
Road equipment	5 to 8 years
Shop equipment	10 years
Office equipment	4 to 10 years
Engineering equipment	4 to 10 years
Infrastructure – bridges	12 to 50 years
Infrastructure – roads	5 to 30 years
Infrastructure – traffic signals	15 years

4. State Trunkline Adjustments

Adjustments to available operating funds resulting from audits of State Trunkline maintenance expenditures are recorded at the time cash settlement is made. The amount of the adjustments, if any, for the year ended December 31, 2004, has not been determined. Based on past experience, the Road Commission does not believe the adjustment will be a material amount.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

5. Compensated Absences

Vacation and sick leave payable is reported in the General Fund only for matured amounts, for example, as a result of employee resignations and retirements. The remaining portion is recorded as an adjustment to the fund financial statements which results in the government-wide statements including both short and long-term portions of this liability. The Road Commission allows employees to accumulate vacation and sick leave in varying amounts, depending on time of service and other factors.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Road Commission's procedures for establishing budgetary data are as follows:

The Engineer / Manager submits a proposed budget for the upcoming year to the Board of County Road Commissioners. The budget is reviewed by the Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted and placed in the Board minutes by the Road Commission.

The budget for the General Operating Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts shown in the financial statements consist of those amounts contained in the formal budget approved and amended by the Board.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting.

Variances at the legal level of control are as disclosed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits

At December 31, 2004, the amounts of the Road Commission's deposits were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured – uncollateralized	<u>1,287,076</u>	<u>1,539,449</u>
	<u>\$ 1,387,076</u>	<u>\$ 1,639,449</u>

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

B. Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	<u>Balance January 1 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2004</u>
Capital assets not being depreciated				
Land and improvements	\$ 3,619,170	\$ -	\$ -	\$ 3,619,170
Land / right-of-way	<u>8,700</u>	<u>-</u>	<u>-</u>	<u>8,700</u>
Total capital assets not being depreciated	<u>3,627,870</u>	<u>-</u>	<u>-</u>	<u>3,627,870</u>
Capital assets being depreciated				
Buildings	2,718,925	-	-	2,718,925
Road equipment	4,401,123	790,814	(461,293)	4,730,644
Shop equipment	144,222	-	-	144,222
Office equipment	106,283	4,441	(28,149)	82,575
Engineers equipment	57,054	5,499	(306)	62,247
Infrastructure – bridges	856,960	52,583	-	909,543
Infrastructure – roads	6,243,334	4,192,321	-	10,435,655
Infrastructure – traffic signals	<u>67,447</u>	<u>-</u>	<u>-</u>	<u>67,447</u>
Total capital assets being depreciated	<u>14,595,348</u>	<u>5,045,658</u>	<u>(489,748)</u>	<u>19,151,258</u>
Less accumulated depreciation				
Buildings	(603,247)	(54,783)	-	(658,030)
Road equipment	(3,155,835)	(535,572)	388,070	(3,303,337)
Shop equipment	(124,766)	(8,581)	-	(133,347)
Office equipment	(93,315)	(5,072)	28,149	(70,238)
Engineers equipment	(43,945)	(5,629)	306	(49,268)
Infrastructure – bridges	(19,412)	(18,751)	-	(38,163)
Infrastructure – roads	(372,285)	(450,004)	-	(822,289)
Infrastructure – traffic signals	<u>(6,779)</u>	<u>(4,519)</u>	<u>-</u>	<u>(11,298)</u>
Total accumulated depreciation	<u>(4,419,584)</u>	<u>(1,082,911)</u>	<u>416,525</u>	<u>(5,085,970)</u>
Net capital assets being depreciated	<u>10,175,764</u>	<u>3,962,747</u>	<u>(73,223)</u>	<u>14,065,288</u>
Total net capital assets	<u>\$13,803,634</u>	<u>\$ 3,962,747</u>	<u>\$ (73,223)</u>	<u>\$ 17,693,158</u>

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

C. Long-Term Debt

Long-term liability activity for the year ended December 31, 2004 was as follows:

	<u>Balance January 1, 2004</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance December 31, 2004</u>	<u>Due Within One Year</u>
Compensated absences	\$ 417,720	\$ 11,239	\$ -	\$ 428,959	\$ 178,118

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Pension Plan

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (888) 478-1919.

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current rate is 7.94% of annual covered payroll for general employees and 15.10% for non-union supervisors. Road Commission employees are required to contribute 4.0% of their annual covered payroll. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Road Commission.

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$246,402 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003 the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2002	\$170,919	100%	\$ -
12/31/2003	183,422	100	-
12/31/2004	246,402	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/2001	\$ 7,911,729	\$ 9,320,170	\$ 1,408,441	85%	\$ 1,656,989	85%
12/31/2002	7,848,899	9,991,886	2,142,987	79	1,714,390	125
12/31/2003	7,928,106	10,117,065	2,188,959	78	1,809,057	121

B. Self-Insurance Pool

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool). The insurance coverage includes, but is not limited to, general liability, auto, property insurance, stop loss protection, errors and omissions, truck line liability and an umbrella policy. The amount the Road Commission pays annually is determined by the Administrator of the Pool and is based on miles of roads, population and prior claim history of the Road Commission. In addition to premiums paid, the Road Commission is responsible for the first \$1,000 of legal expense incurred per occasion. All other risk is transferred to the Pool.

C. Contingencies

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

MIDLAND COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

D. Single Audit

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County.

During the year ended December 31, 2004 the Road Commission of Midland County expended federal awards in the amount of \$696,959. The entire amount of these expenditures represent Department of Transportation Federal Highway grant proceeds expended on public road improvement projects under Federal Urban and Rural Programs, whereby work was administered by the Michigan Department of Transportation. Due to the work and funding of these projects being performed at the State level, these expenditures will be included in the single audit procedures of the State. No federal awards expenditures were administered by the Midland County Road Commission, therefore a single audit for the Road Commission is not required.

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OPERATING FUND SCHEDULES

MIDLAND COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF REVENUES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Revenues				
Taxes				
County millage	\$ -	\$1,005,718	\$ -	\$1,005,718
Permits and licenses	-	-	14,475	14,475
Federal sources				
Surface transportation program (STP)	391,497	-	-	391,497
D Funds	247,682	-	-	247,682
Bridge	-	13,189	-	13,189
High priority	44,591	-	-	44,591
State sources				
Michigan transportation funds				
Engineering	7,000	3,000	-	10,000
Urban road	270,627	102,467	-	373,094
Allocation	4,017,297	1,492,644	-	5,509,941
State critical bridge	-	2,473	-	2,473
Economic development funds				
Rural primary (D)	159,795	-	-	159,795
Forest road (E funds)	48,135	-	-	48,135
Contributions from local units				
City and Village	-	-	128,869	128,869
Townships	-	861,460	-	861,460
Other governments	-	30,295	2,418	32,713
Charges for services				
State trunkline maintenance	-	-	445,405	445,405
State trunkline non-maintenance	-	-	121,358	121,358
Salvage sales	-	-	6,371	6,371
Other	-	-	10,285	10,285
Interest and rentals	14,459	254	10,654	25,367
Other				
Gain on equipment disposals	75,194	-	61,597	136,791
Royalties	-	-	13	13
Private contributions	-	1,350	1,603	2,953
Total revenues	\$ 5,276,277	\$3,512,850	\$ 803,048	\$9,592,175

MIDLAND COUNTY ROAD COMMISSION

GENERAL OPERATING FUND SCHEDULE OF EXPENDITURES BY COMPONENT

FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY ROAD FUNDS	LOCAL ROAD FUNDS	COUNTY ROAD COMMISSION FUNDS	TOTAL
Expenditures				
Construction				
Roads	\$ 259,349	\$ -	\$ -	\$ 259,349
Heavy maintenance				
Roads	2,661,342	1,111,194	-	3,772,536
Structures	17,975	34,607	-	52,582
Safety projects	160,436	-	-	160,436
Maintenance				
Roads	1,624,316	1,846,327	-	3,470,643
Structures	-	74,168	-	74,168
Winter maintenance	545,740	425,020	-	970,760
Traffic control	113,325	93,162	-	206,487
Total maintenance	5,382,483	3,584,478	-	8,966,961
State trunkline maintenance	-	-	491,034	491,034
State trunkline non-maintenance	-	-	120,734	120,734
Equipment expense (net)	(194,015)	(238,221)	(46,696)	(478,932)
Administrative expense (net)	243,814	162,369	-	406,183
Capital outlay (net)	210,531	-	(92,637)	117,894
Other				
Cities and villages	-	-	298,452	298,452
Total expenditures	<u>\$ 5,642,813</u>	<u>\$ 3,508,626</u>	<u>\$ 770,887</u>	<u>\$ 9,922,326</u>

MIDLAND COUNTY ROAD COMMISSION

**GENERAL OPERATING FUND
SCHEDULE OF CHANGES IN FUND BALANCE BY COMPONENT**

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>PRIMARY ROAD FUNDS</u>	<u>LOCAL ROAD FUNDS</u>	<u>COUNTY ROAD COMMISSION FUNDS</u>	<u>TOTAL</u>
Total revenues	\$ 5,276,277	\$ 3,512,850	\$ 803,048	\$ 9,592,175
Total expenditures	<u>5,642,813</u>	<u>3,508,626</u>	<u>770,887</u>	<u>9,922,326</u>
Revenues over (under) expenditures	(366,536)	4,224	32,161	(330,151)
Fund balance, beginning of year	<u>1,846,500</u>	<u>41,117</u>	<u>1,345,813</u>	<u>3,233,430</u>
Fund balance, end of year	<u>\$ 1,479,964</u>	<u>\$ 45,341</u>	<u>\$ 1,377,974</u>	<u>\$ 2,903,279</u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

April 13, 2005

Members of the Board of County
Road Commissioners
County of Midland
Midland, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the **Midland County Road Commission** as of and for the year ended December 31, 2004, which collectively comprise the **Midland County Road Commission's** basic financial statements, and have issued our report thereon dated April 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **Midland County Road Commission's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **Midland County Road Commission's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of County Road Commissioners, the County's Board of Commissioners and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.